Fiscal Year 2004 Annual Report

COMMITTEE OF CONSUMER SERVICES

MISSION

The Utah Committee of Consumer Services was created by Utah legislators in the 1977 General Legislative Session. The Committee serves as the consumer advocate for residential, small business, and agricultural customers of the State's electric, gas, and telephone utilities. The Committee convenes monthly public meetings to provide utility consumers the opportunity to present concerns and petition the Committee to take action. They also assist consumers in appearing before the Public Service Commission or appear on their behalf, and advocate positions advantageous to consumers.

FY 2004 HIGHLIGHTS

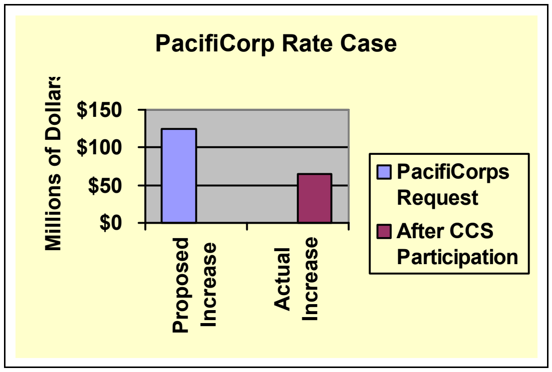
During the past year, the Committee participated in over two dozen dockets on electricity, natural gas, and telephone issues before the Utah Public Service Commission. Highlights of the year included:

- Unanimous decision in favor of the Committee by the Utah Supreme Court on Questar Gas Company's carbon dioxide processing plant;
- Significant PacifiCorp rate case resulted in lower rates for Utah customers;
- Pricing flexibility for Qwest (case is pending before the Supreme Court);
- Filings before the Public Service Commission, combined with legislative issues, resulted in millions of dollars in savings to Utah residential and small business customers.

CUSTOMER SERVICE

Electricity

In July of 2003, PacifiCorp (which operates as Utah Power) filed for a rate increase of $125 million, or 12.5%. The Committee's participation resulted in PacifiCorp collecting only $65 million, 52% of what was requested. The Committee was directly responsible for a $13 million reduction in net power costs. The Committee's analysis was also instrumental in negotiating a return on equity reduction from 11% to 10.7%. This represented a $5 million savings to Utah customers. It is particularly significant as the Company originally sought an increase to 11.5%.



Since May 2002, the Committee has participated in the examination of PacifiCorp's Multi-State Process in which the utility proposed to separate the six states that it serves in order to assure 100% cost recovery for new and existing resources. Because the states are growing at different rates, with different resource needs, PacifiCorp proposed altering the cost allocations so that each state picked up its own resource costs. The Committee attended numerous negotiations held in several states over the two and a half year period to ensure that an unfair amount of costs were not shifted to Utah. At the end of the 2003 fiscal year, PacifiCorp's six states were in the process of creating a stipulation that, if approved by the Public Service Commission, will result in a 1.5% increase in rates for Utah ratepayers over four years. The Committee's continued work assisted in reducing the impact on Utah by $21 million.

Over a two-year period the Committee was an active participant in creating rates for Schedules 37 and 38, tariffs put into place to assign specific rates for Qualifying Facilities (QF) up to 1 megaWatt and over 1 megaWatt, respectively. QFs are guaranteed the ability to sell power to PacifiCorp under federal law. The Committee worked to ensure that the QFs, while receiving a reasonable rate, are not being subsidized by Utah ratepayers, and that such customers pay no more than PacifiCorp would have paid had it built the resource itself. The Commission adopted several of the Committee's recommendations for both the Schedule 37 rate and the Schedule 38 interim rate, including capacity costs, summer month calculations, adjusted gas calculation, and a more accurate averaging calculation for avoided costs. Because the modeling techniques the Committee recommended were not available, the Commission adopted interim rates for large QFs. The Commission asked a task force to resolve the modeling deficiency so that rates will be set according to the resource actually avoided, as recommended by the Committee, in order to protect ratepayers from paying the higher costs associated with more expensive resources. The Committee continued its participation in the competitive bidding task force, which has evaluated the barriers in place for independent power producers trying to sell power to PacifiCorp.

In response to Senate Bill 152 passed during the 2002 General Session, PacifiCorp filed a petition for a demand-side management (DSM) tariff to recover costs for DSM programs. Such programs can reduce consumption for industrial or large commercial customers, as well as residential. This ultimately reduces rates if PacifiCorp's resource needs are reduced, especially during peak hours when purchasing power is the most expensive. The Committee participated in creating the stipulation presented to the Commission. Utah customers began paying the DSM surcharge on April 1, 2004.

The Committee also continued its support of the DSM programs in place for residential customers. These programs provide cash incentives to encourage residential and small business customers to replace old refrigerators and central air conditioning systems with new, more efficient ones. They also allow PacifiCorp to remotely turn off customers' central air conditioners for short periods during high usage.

On December 26, 2003, PacifiCorp had a record outage in which 190,000 Utah customers went without power—some for as many as five days. Because of the severity of the storm and length of outages, the Committee recommended that PacifiCorp give credits to customers who suffered the longest outages. On March 11, 2004, PacifiCorp granted over $1.8 million in credits to customers without power for over 48 hours. The Committee participated in PacifiCorp's examination of the outage and met with Company officials numerous times for updates while the utility did its internal investigation. The Committee is currently examining PacifiCorp's final report and the analysis completed by the Division of Public Utilities.

Natural Gas

On August 2, 2003, the Utah Supreme Court supported the Committee's petition and unanimously overturned a Public Service Commission decision to allow Questar Gas Company to collect rates from Utah gas customers for a plant built to remove carbon dioxide from gas supplies. The Committee argued in its October 2002 filing that the utility did not prove its prudence in building the plant with an affiliate company and thus should not be allowed to recapture those costs from ratepayers. This represents a potential $21 million savings for Questar Gas customers.

The Committee has been instrumental in the rate design task force established by the Public Service Commission in the last Questar Gas rate case. The task force examined the manner in which the utility files its costs and subsequently designs rates to recover such costs. The evaluation resulted in Questar Gas tracking its costs in the same manner as they are reported to the Federal Energy Regulatory Commission (FERC). This will allow for better tracking and greater accuracy in designing rates for customers.

Continued effort on the Committee's part to improve Questar Gas's customer bill resulted in some changes to the monthly bill that customers will now receive. The new bill was sent out in July 2004 with changes to make the bill easier to read and calculate.

The Committee succeeded in limiting Questar Gas's request to increase the $120 deposit some customers are required to make before they can receive service. Questar sought an increase that determined a customer's deposit by doubling that customer's highest monthly bill from the most recent year of service. For the average customer, this would have represented an increase to $230. The Committee recommended the deposit be based on the highest monthly bill without doubling it, resulting in a savings of approximately $70.

To encourage the conservation of natural gas, the Committee and other parties examined DSM programs for Questar Gas customers. The task force filed a report to the Public Service Commission recommending several steps that would involve educating the public on usage behavior that could reduce natural gas consumption by 30%. Another recommendation included ways that the utility could offer low-interest or no-interest financing to customers in order to weatherize their homes.

Telecommunications

In July 2003, Qwest petitioned for pricing flexibility. This would allow the utility to change its prices for certain services on short notice and without Commission approval in 44 of the wire centers serving residential customers and 19 wire centers serving business customers. The filing also sought to eliminate price caps that were imposed during the 2002 pricing flexibility proceeding to protect residential customers from unwarranted rate increases. The Committee argued in the recent case that Qwest does not have a competitor providing same or substitutable basic residential service and is not therefore, entitled to pricing flexibility in the petitioned for areas. The Committee also maintained that in the event pricing flexibility is granted, maximum caps would be necessary on all residential and business services in the affected wire centers.

After the Commission granted Qwest's request, the Committee filed for a reconsideration on that October 2003 Order, which was also granted. The Committee filed comments that even though it appeared a competitor existed, it seemed customers could not get service from them. However, the Commission reaffirmed its order in April 2004. On May 19, 2004, the Committee appealed the Commission's final decision to the Utah Supreme Court.

The Committee participated in the Land Development Agreement Tariff (LDA) dispute between Qwest and building contractors, who install telecommunications facilities in new subdivisions. The LDA Tariff specifies the terms of a contract between the two parties and was put into place because Qwest had many lengthy held orders for customers. However, contractors have complained that the capped cost amount is not enough for them to recover all their costs and that Qwest would not disclose important details in the estimates due to confidentiality issues. The Committee filed comments in March 2004 stating that this debate would not be occurring had Qwest previously fulfilled its utility obligations. Because the contract agreement was established to prevent held orders from accumulating, the Committee is working to ensure that customers continue to receive service in a timely manner. Hearings are pending.

The Committee continues to participate in the Uintah Basin Extended Area Service (EAS) 2003 filing for creation of a basin-wide EAS. This service would enable the customers of Uintah Basin Telecom Association (UBTA) and UBET Telecom Inc (UBET) to expand the local calling area to include all the exchanges served by these rural exchange carriers. While not opposing the EAS, the Committee believed that the rates were too high and that a more accurate cost study needed to be done to calculate actual costs. Based on the Committee's comments on the importance of cost-based rates, the previously implemented EAS rates were made interim while the companies do a more thorough cost study on which to base permanent rates. The Committee has also recommended that after the data becomes available, any funds over-collected be returned to the respective customers.